Testimony

of the

National Cattlemen's Beef Association

to the

House Agriculture Committee

The Honorable Larry Combest, Chairman

Presented by

Wythe Willey
NCBA President-Elect

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Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry.

Chairman Combest, Ranking Member Stenholm and the Members of the House Agriculture Committee,

The National Cattlemen's Beef Association appreciates the opportunity to present to you and the House Agriculture Committee our views on farm policy and our policy positions going into to the 2002 Farm Bill. I am Wythe Willey, President-elect of the NCBA. I am a rancher and a resident of Cedar Rapids, Iowa.

Industry Background

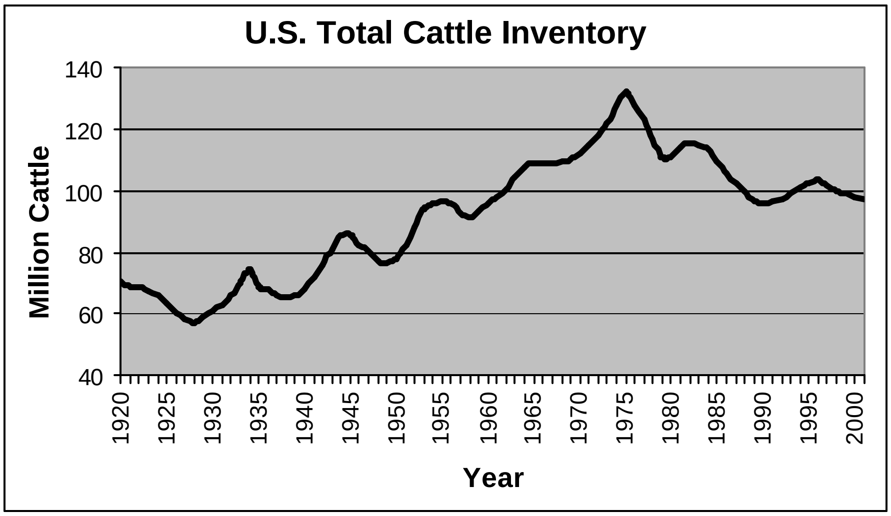
It is early in the farm bill debate. Accordingly we want to take some time to impress upon this Committee the importance of the beef and livestock industry to American agriculture. The sale of cattle and calves is the single largest contributor to farm receipts. Livestock sales account for nearly half of all farm receipts and sales of cattle and calves account for 40 percent of all livestock sales. Livestock also consumes more than 3 out of every 4 bushels of the three major feed grains (corn, sorghum and barley) used domestically. Cattle in feedlots account for nearly one-forth of the total grain consuming animal units and all beef cattle account for nearly 30 percent. If dairy cows are included, all cattle make up 40 percent of all total grain consuming animal units.

Annually, the beef industry consumes corn, wheat, grain sorghum, barley, oats and an assortment of feed ingredients including co-products from wheat milling, flour milling and ethanol production. Because of the versatility of the ruminant animal, the beef industry is also able to take advantage of feed ingredients such as screenings and grain cleanings that other segments of agriculture are unable to utilize. Of the $190 - $200 billion dollars in annual farm income from commodity sales during the past decade, the beef industry has contributed $35 - $40 billion annually. Plus, as indicated earlier, beef cattle consume nearly 30 percent of the $20 - $27 billion of feed crops sold annually. Clearly, the livestock industry contributes more to farmer incomes than the government -- even at recent expenditure levels to supplement farm incomes.

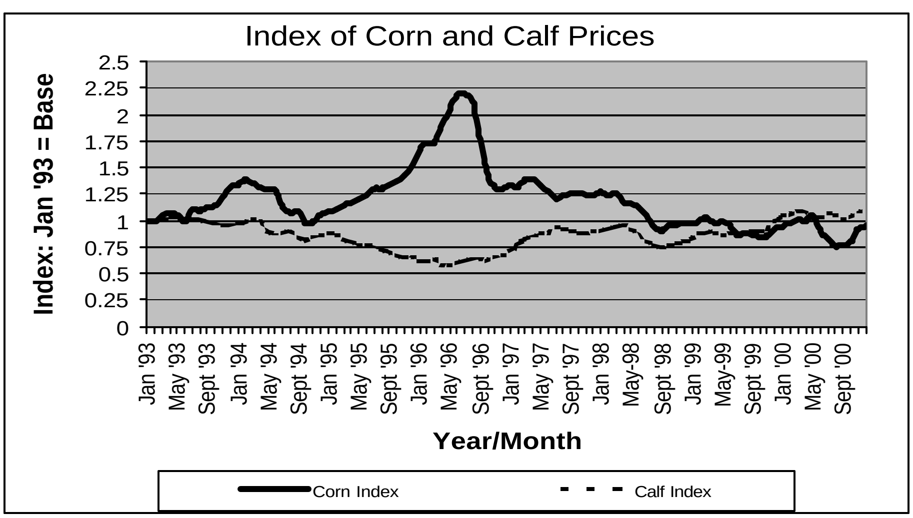
As the largest segment of agriculture, the beef industry is concerned about government programs that inadvertently affect the price of feed grains or result in distorted market signals. These actions can have major impacts on the economic well being of the beef industry. We do not support direct price or income supports for the beef industry but we are concerned at efforts to increase farm income by raising input prices on the beef industry.

A general rule of thumb states that calf prices decline by $1 to $1.20 per hundredweight for every 10-cent per bushel increase in the corn price and feeder cattle prices decline by about 70 cents for every 10-cent per bushel increase in corn price. Some cattle feeders have indicated that this impact is conservative and the impact on calf prices is closer to $1.50/cwt. for every 10-cent per bushel corn price increase. Ranchers are willing to accept these price impacts when they come from changes in supply and demand, but not from acts of Congress that distort grain prices and pit one industry group against another.

The market is powerful. The beef industry understands it and embraces it. We are all familiar with the beef cycle--its ups and its downs. But it works. When prices are good, as they are now, producers hold heifers back and increase their breeding herd to produce more calves. In time, the industry begins producing too many calves, and more beef is going to market than can be sold profitably and prices begin to fall. As this occurs, producers cull more cows, sell more heifers and reduce herd size -- eventually reducing supply until prices begin to rise. And the cycle starts all over again. As shown in the graph below, the length and duration of this cycle may change, but on average it lasts about 10 years and it has been in place since at least the 1920s. Production peaks tend to be in the middle of each decade with cyclical low production near the beginning of each decade. The cattle cycle occurs because individuals make independent decisions that collectively impact the entire the market, and over time, these individual actions have an aggregate effect. The beef industry does not want these market forces to be distorted by government price floors or income supports.



In 1996, when corn was over $5 dollars a bushel and calves were trading at a discount to fed cattle, we had a lot of people lining up wanting to help us with federal dollars. Our industry said NO. Majority opinion in the beef industry was that the market would take care of our problems and it has. Today, the beef industry is one of the few bright spots in American agriculture. We believe prices are strong because we let the marketplace work and have focused on building demand for beef.



We continue to work on improvements to the infrastructure that keeps our industry strong. These advancements focus on agricultural research, a science-based approach to regulations and inspection, market development, product promotion, and trade. We do not spend time or political capital trying to enact programs to deal with market downturns that in the end would only encourage over-production and extend the downside life of the cattle cycle. The market is truly a powerful force and is the beef industry's greatest strength.

Federal Farm Policy

Nonetheless, the members of NCBA understand that farm programs are a major component of US domestic policy and will remain so for the foreseeable future. Therefore, NCBA has been and will continue to be focused on ensuring that farm policy does not benefit one part of agriculture at the expense of another. NCBA will not consent to US farm policy that is financed out of the pockets of the beef industry. With that in mind, NCBA is keeping a close eye on the following areas that could cause problems for the beef industry and the NCBA:

1. **Mandatory set-asides, acreage reduction programs and production controls**. If these proposals operate as intended, farmers would be induced to take land out of production, decreasing the supply of grain in the marketplace resulting in higher prices. Higher prices would be good for farmers and the US Treasury, but these higher prices would be funded out of the pockets of beef and other livestock producers. Ultimately, grain producers in other countries just increase production and the US gives up market share. This proposal would amount to a transfer of income and risk from one sector of agriculture to another and to international grain producers. NCBA would be opposed.

2. **Farmer-Owned Reserve**. In a FOR program, farmers are induced by government subsidies to place grain into storage until the price rises to a specific level. When grain reaches that level it is released on the market. This program is deliberately designed to hold grain off the market by restricting supply, subsequently leading to higher prices. Farmers are paid storage by the government and receive the higher prices when their grain is released. It may be good for farmers, however, the higher price is paid by livestock producers who must pay artificially high market prices. This program also leads to quality degradation of grain as good quality grain is put into storage and poorer quality grain is taken out of storage. This proposal would amount to a transfer of income and risk from one sector of agriculture to another and NCBA would be opposed.

3. **Non-Recourse Loan Forfeitures**. In the past, these programs led to increases of government stocks. As implemented, farmers would take a loan out on their production from the government. If prices rose, they would sell their grain and repay the loan. However, if prices stayed low, they would simply forfeit their crop to the government to repay the loan. Historically, this led to buildup of government stocks -- where grain quality deteriorated -- and reduced short-term grain supply. Ultimately artificially higher cash grain prices resulted (in the short-term until government released its stocks on the market) while the government incurred high storage costs on surplus grain. These programs resulted in high cost to the federal government and increased volatility in grain prices to beef and livestock producers. This proposal would amount to a transfer of income and risk from one sector of agriculture to another and NCBA would be opposed.

4. **"Flex-Fallow" type program**. This program creates an incentive for producers to set aside a percentage of land by offering higher loan rates on grain that is produced from the land that stays in production. This proposal could have two results. First, it could amount to a de facto set aside program that would restrict production, decrease grain supply and increase prices. If this result occurs, it would amount to a transfer of income and risk from one sector of agriculture to another and NCBA would be opposed.

    However, the second outcome could have even more deleterious affects on the agriculture economy. Producers could choose to set aside a portion of their most "fragile" acres and then strive to increase production on the most productive acres to take advantage of the higher loan rates. Many of these "fragile" acres may not even be in production today and could end up being turnrows, row spacings, irrigation pivot corners, or stream banks that often are not farmed anyway. Hence, this program appears to significantly raise loan rates by offering a "false" set aside incentive. This proposal would only exacerbate the current surplus situation because higher loan rates would create a tremendous incentive to over produce on highly productive land and take land out of production that may not be in production to begin with.

5. **Federal dairy buyout, herd reduction program or mandatory dairy supply-management**. The dairy industry is an integral part of the beef industry. However, because of the potential impact on beef markets, the NCBA would be opposed to any government program that would create an incentive for culling of dairy cows in response to low milk prices. This issue is discussed further in the testimony.

Should proposals such as these become part of the legitimate farm bill discussion, NCBA will seek to mandate--by USDA and the recognized research community--a complete impact study of these proposals on the beef industry. I reiterate, NCBA will oppose any government program that has a negative impact on the beef industry. The beef industry has worked hard to increase producer profitability along with consumer confidence and demand. We have also worked with industry partners and government to protect our industry from risks such as foreign animal disease. We do not want our advancements in these areas to be erased by farm policy that puts them at risk.

The NCBA believes that there are many positive aspects to the 1996 farm bill. Though the 1996 bill has been much maligned in recent years, it is interesting to note that many of the proposals for the 2002 farm bill have focused on modifications to the basic 1996 bill. In short, proposals seek to continue and expand eligibility for AMTA payments, rebalance loan rates, and expand eligibility for marketing loans. NCBA's position on these issues is simple. As long as the loan program is focused on marketing loans and there is political willingness to accept the resulting budget exposure that these loans entail, we are indifferent to what levels are established for individual commodity loan rates.

NCBA does recommend, however, that the time-frame and averaging methods used to establish or rebalance loan rates be consistent across all eligible commodities. If each commodity uses different base years, averaging method or even a fixed loan rate to rebalance loan rates, then it is conceivable that within a short span of time, the rates would be once again out of balance leading to loan rate induced planting decisions Using the same base years and calculation methods for all commodities will facilitate an ease of understanding marketing loans by the marketplace. NCBA and our members insist that grain move and be a part of commerce, not tied up in storage and held off the market. Marketing loans provide federal support to farmers at the prevailing loan rate but the grain still trades at the prevailing market price. As such, marketing loans are acceptable to the beef industry and the costs of these grain-specific programs have been estimated in testimony by other organizations directly representing feed grain producers. Most requests for funding range from doubling baseline projections (to $18 billion) to more than $25 billion for income- and price- support programs.

While they are acceptable to NCBA, marketing loans do have downside implications for trade agreements and on farmer planting decisions. Statutory AMTA payments are green box, supplemental AMTA payments are in dispute as to amber or green box, and the marketing loan program is amber box. If we raise loan rates and increase the number of commodities eligible, the US may reach or exceed the amber box ceiling. The US may lose credibility in international negotiations if we increase the very activities that we are asking other countries to disavow. However, the US did not reach nuclear disarmament in the 1980s through unilateral action. We spent until the Russians broke the bank -- then we negotiated a settlement. If breaking the EU farm subsidy bank is part of the overall negotiation strategy, then maximizing our amber box payments may have merit. Obviously, it will give the US something to negotiate away later, but it could also hurt our short-term coalition building efforts with Cairns and Mercosur countries.

Second, in testimony presented to this Committee, one group states that rebalancing loan rates "could slightly lower feed grain costs if acreage for feed grains expands in response to the higher loan rate." Agricultural economists have relayed the similar message to NCBA that farmers would increase plantings in response to higher loan rates, leading to lower cash prices. It is interesting to note that "Freedom to Farm" has been criticized for not providing an adequate safety net and not dealing with overproduction. However, current proposals to increase loan rates would seem to exacerbate the ongoing problems of low prices and oversupply and may very well reach the cap on amber box payments. The safety net solution would then be forced to consist of green box AMTA payments to farmers. While this strategy may help facilitate a spending war with the European Union and the ultimate demise of European farm subsidy programs, it seems counter-intuitive for American agriculture to support policies that stimulate over-production leading to lower prices.

Dairy Policy

Mr. Chairman, I would like to focus on the dairy industry briefly. The senior members of the committee are familiar with the challenges faced by the beef and dairy industry over the years. Nonetheless, for the benefit of the newer members of the committee I would like to touch on a few historical episodes. The NCBA and our predecessor organization, the NCA, has typically taken a hands off approach to dairy policy as it relates to the entire dairy pricing system. However, 6% to10% of dairy revenues comes from sales of cattle and calves for beef. Dairy cows make up nearly half of the total cow slaughter and can have a tremendous impact on the beef industry.

In 1986, the USDA mishandled a dairy buyout, or a dairy termination program (DTP) that was part of the 1985 farm bill. The buyout cost the government $1.8 billion in payments to entice dairy producers to exit the business for a minimum of five years. Of that total, $677 million were collected from assessments on dairy producers. An additional $400 million was allocated and spent to subsidize beef exports and other programs to help mitigate impacts of the DTP on the beef industry. This ill-conceived program flooded the beef market and in short was an unmitigated disaster to the beef industry. Prices for fed cattle declined nearly $6/cwt.during the first week as futures markets declined by maximum limit moves for three consecutive days then an additional $1/cwt. on the fourth day. Prices for fed cattle remained $5-$7/cwt. below previous year levels for at least 6 months after implementation of the program. Prices for calves and yearling cattle declined by $10 - $15/cwt. as lower prices for fed cattle and general confusion and uncertainty in the marketplace were factored into lower prices paid by feedlots. In all the dairy buyout cost the beef industry upwards of $1 billion during 1986 and early 1987.

The dairy buyout was added to the 1985 farm bill in conference and USDA made a series of blunders in its implementation that were documented in subsequent Congressional hearings. There were lawsuits and oversight hearings. Some people would like to forget this fiasco, but if you say "dairy" to some cattle producers, they'll say "buyout." NCBA and the beef industry learned some valuable lessons in 1986 about the potential impacts and unintended consequences on the beef industry from supply management programs in dairy or other commodities and will not allow a program of this type to ever occur again.

From time to time, various dairy supply proposals arise that are not as objectionable as the 1986 dairy buyout. However, their effect could be the same. NCBA will keep a cautious eye on any proposal that could lead to more dairy cattle going to market than would otherwise occur under normal market driven conditions. The dairy industry is an important part of the beef industry and beef production is an important product of the dairy industry as cull cows and veal calves ultimately end up in the food chain. We want dairy producers to be profitable, but not at beef producers' expense and not because government programs determined who would be winners and who would be losers.

Conservation and Environment

Conservation and environmental issues will be a key component in the next farm bill. The bill could likely contain the most comprehensive conservation initiatives proposed to date. NCBA will provide a strong voice in this debate because cattle producers are partners with vested interests in conservation. Though we will likely be called to discuss a whole host of issues at a later date, we would like to share a few ideas we intend to make a part of the next farm bill.

Last year, this Committee dealt with the Total Maximum Daily Load issue. Currently, the Committee is reviewing the Animal Feeding Operation-Confined Animal Feeding Operation proposed regulations. The NCBA appreciates the care and attention the House Agriculture Committee has given these issues. These regulations and requirements could literally add billions of dollars of cost to the beef and livestock industries. If the government is going to mandate certain practices within these regulations, then the government should provide adequate funding to assist producers with regulatory compliance and environmental stewardship. NCBA recommends an annual $2 billion allocation to offset cost of compliance with government mandated environmental programs.

Specifically, NCBA members have established the following priorities:

1. Restore NRCS staffing and technical assistance to pre-1985 levels. $275 million per year.
2. Increase research in soil, water, plant and wildlife sciences. $100 million per year.
3. Establish short courses for producers and agency personnel in soil, water, plant, livestock and wildlife management. $25 million per year.
4. Provide practice-based incentive payments for conservation based on developing, implementing and maintaining a comprehensive conservation plan over ten years. $1.6 billion per year.
5. Ensure confidentiality of private business information between land-owner and state and federal government, not subject to open records access.

The goal of conservation and environmental programs, specifically the Environmental Quality Incentive Program (EQIP), is to achieve the greatest environmental benefit with the resources available. Agricultural producers are very willing to participate in environmental programs as indicated by the current backlog of 196,000 unfunded EQIP proposals totaling $1.4 billion. The backlog is so large that producers have stopped submitting proposals. Arbitrarily setting numerical caps that render some producers eligible and others ineligible limits the success of the program. Addressing environmental solutions is not a large versus small issue. All producers have the responsibility, and therefore should have the ability, to participate in programs that assist in achieving attainable environmental goals. Accordingly, all producers should be afforded equal access to cost share dollars under programs such as EQIP. Nearly 90 percent of all fed cattle are marketed from feedlots with a one-time capacity of more than 1,000 head. Many relatively small farmer-feeders have a one-time capacity of 1,000 to 10,000 or even larger. The administration should exercise its authority to remove the 1,000 animal unit means testing limit to qualify for EQIP dollars.

Many producers would like to enroll in various USDA conservation programs including CRP and CREP to reach environmental goals, particularly in the Everglades area, the Pacific Northwest and even in my home state of Iowa. However, enrolling in these programs requires the producer to stop productive economic activity on the land enrolled. NCBA believes that economic activity and conservation can go hand in hand.

NCBA will support provisions in the next farm bill to allow managed grazing on land enrolled in continuous sign-up CRP and CREP. The debate about allowing managed grazing--as part of an NRCS required CRP maintenance program--on traditional CRP is continuing within our association and should be resolved at NCBA's summer meeting in August. These management practices, including grazing, could have tangible benefits for the public due to improvements of environmental quality including limiting invasive plant species and improving wildlife habitat and water quality.

Disaster Programs

The NCBA supports efforts to assist producers when Mother Nature deals a blow. This is why the NCBA supported language in the "2000 Agricultural Risk Protection Act" that directs resources to programs for pasture, range and forage losses. NCBA will continue to work with the Risk Management Agency and its contractors to develop programs and policies that work for cattle producers. NCBA supports making the Livestock Assistance Program a regular program with $250 million in funding available when producers need the assistance. One priority for NCBA is to prevent unintended consequences of any of these programs. We will work to ensure that there are proper incentives for land stewardship and animal well-being.

Agricultural Research, Surveillance, Monitoring and Foreign Animal Disease

The Committee is well aware of current issues facing the beef and livestock industries. Bovine Spongiform Ecepalopathy (BSE) and Foot and Mouth Disease (FMD) have been on the minds of beef producers and on the televisions and in the magazines of American consumers. In the middle of this onslaught though there are some interesting statistics. A consumer survey conducted on behalf of the beef industry indicates that consumer confidence in beef's safety has actually increased despite the fact that 81% of consumers have heard of BSE since the fourth quarter of 2000. The NCBA believes that consumer confidence in our beef system is not an accident. It is the result of industry and government efforts to insist on science-based measures and decisions to keep our industry free from disease and our consumers confident in the wholesomeness of our product.

The US must set the world standard for our research, inspection, surveillance and food safety monitoring system to instill confidence in our customers, both domestically and abroad. The NCBA calls upon Congress to commit to doubling funding for agricultural research to $2.4 billion annually over the next 5 years. This funding would include construction of a National Animal Disease Center at Ames, Iowa at a cost of $350 million. This facility could help provide important diagnostic, monitoring, and surveillance for diseases that could infect the national livestock herd. The cost of this facility may seem high, but it would provide long-term benefits for agriculture, particularly in light of the Foreign Animal Diseases that exist around the world. Given the amount of money that was expended in direct payments to agriculture in FY 2000, this facility could have been built 75 times over.

Conclusion

Mr. Chairman, many of the areas in which NCBA has significant interest are beyond the scope of today's hearing. We have included these in an Appendix to this testimony. NCBA policy is directed toward minimizing direct government involvement in agriculture. To that end, NCBA will oppose any policy that favors one producer or commodity over another. Farm policy that guarantees a profit or restricts the operation of the marketplace should be discouraged. NCBA does not support policy that sets prices, underwrites inefficient production or manipulates domestic supply and demand.

Mr. Chairman, I would like to also submit for the record a copy of a letter from NCBA President Lynn Cornwell to American Agriculture. I would like to highlight one sentence from the letter. "It is time for all of us to step outside the traditional thought process and develop a comprehensive package that assures sustainability and competitiveness of US agriculture during the 21st century." Thank you again and I look forward to continuing this dialogue as the process unfolds. I would be happy to answer any questions.

APPENDIX

Taxes

NCBA supports repeal of the Death Tax, reduction in Capital Gains Tax, improvement of income management tools such as the Farm and Ranch Risk Management Account, repeal of the Alternative Minimum Tax, and the full 100% deductibility of health insurance premiums for the self-employed. NCBA will work with Congress, the Bush Administration, and our coalition partners to make these significant changes to the US Tax Code.

International Trade

NCBA has been and continues to be a strong believer in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our products. We support the Market Access Program that helps expand opportunities for US beef and urge $200 million in MAP funding to augment long-term market development efforts for US agricultural products. Congress should approve Trade Promotion Authority for the President.

We also support Congressional and regulatory action to address unfair international trade barriers that hinder the export of US beef. We encourage the Committee's continued strong and vigilant oversight of the enforcement of any trade pact to which American agriculture is a party. Accordingly, we appreciate and commend Chairman Combest and Ranking Member Stenholm for their efforts in the passage of Carousel Retaliation. We ask the Committee to urge the administration to implement Carousel Retaliation to deal with current European non-compliance. Related to the European beef ban and the Carousel Retaliation issue, the NCBA supports the "Trade Injury Compensation Act" that would allow any funds collected from the implementation of retaliatory duties to be used by the beef industry for consumer education and market development in the international marketplace.

Competition

NCBA also supports the critical role of government in ensuring a competitive market through strong oversight. This includes the role of taking the necessary enforcement actions when situations involve illegal activities such as collusion, antitrust, and price-fixing. However, government intervention must not inhibit producers' ability to take advantage of new marketing opportunities and strategies geared toward capturing a larger share of consumers' spending for food. In short, the government's role should be to ensure that private enterprise in marketing and risk management determines a producer's sustainability and survival.

Country-Of-Origin Labeling

The NCBA supports legislative and regulatory action that would rescind the use of USDA quality grades on imported beef carcasses and on cattle imported for immediate slaughter. We appreciate the efforts of many Members of this Committee for keeping pressure on USDA to bring this issue to a resolution. The NCBA supports mandatory country-of-origin labeling for all imported beef. USDA estimated that the cost of this program would be $30 million.

We have submitted to the USDA a proposal for a voluntary certification program that would allow a "Beef: Made in the USA" label on beef. We continue to work with USDA and our industry partners for swift implementation of this proposal.

Interstate Shipment of State-Inspected Meat

NCBA supports legislation that would allow meat inspected by state departments of agriculture to be shipped across state lines. This would create additional competition in the packing sector and create marketing opportunities for family-owned packing companies that are currently limited to simply marketing in-state. Working with the industry, NCBA made significant progress on this issue in the 106th Congress. We will continue to negotiate and seek consensus legislation that will make interstate shipment of state-inspected meat a reality.

Dealer Trust

The NCBA supports the creation of a "Dealer Trust" to protect the financial stability of cattle producers when the buyers who purchase livestock file bankruptcy. This legislation would create a trust to provide payment to the sellers of cattle if the buyer becomes unable to pay due to bankruptcy or other impediment to payment.

Property Rights

The NCBA will continue to work with Congress to pass legislation that requires federal agencies to prepare a takings impact assessments on private property prior to taking action. This legislation should provide relief and compensation to landowners for property that has been taken for a public purpose.